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Market Intelligence

Sleep Number Corporation

NasdaqGS:SNBR

Earnings Call

Tuesday, May 12, 2026 1:30 PM GMT

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Call Participants

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President, CEO & Director

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Robert Kenneth Griffin

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Presentation

Operator

Welcome to Sleep Number's First Quarter 2026 Earnings Conference Call. [Operator Instructions] As a reminder, this call is being recorded today, Tuesday, May 12, 2026. This conference call will be available on the company's website, ir.sleepnumber.com. Please refer to today's news release to access the replay.

On today's call, we have Linda Findley, President and CEO; and Amy O'Keefe Chief Financial Officer of Sleep Number. Before handing the call over to the company, we will review the safe harbor statement.

The primary purpose of this call is to discuss the results of the fiscal period ending on April 4, 2026. This call, including commentary and responses to questions, may include certain forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties outlined in the company's earnings news release and discussed in some detail in the annual report on Form 10-K and other periodic filings with the SEC.

The company's actual future results may vary materially. In addition, any forward-looking statements represent the company's views only as of today and should not be relied upon as representing its views as of any subsequent date. The company specifically disclaims any obligation to update these statements.

Please also refer to the company's news release and SEC filings for a reconciliation of certain non-GAAP financial measures where applicable and for additional supplemental financial information included in the news release or that may be discussed on this call.

I will now turn the call over to Linda Findley, Sleep Number's President and CEO.

Linda A. Findley
President, CEO & Director

Good morning, and thank you for joining us. I'll start with a brief update on our capital position. On April 27, we reached an agreement with our existing lenders that provides near-term relief from certain financial covenants, adding \$55 million of incremental liquidity, including a new \$25 million term loan.

This matters for two reasons. First, we believe it allows us to continue executing our turnaround plan for the business and actively market and sell our new products without disruption. Second, it gives us time to focus on a longer-term solution for our capital structure, including evaluating a range of strategic and financing options best for the business. Amy will walk through the details shortly.

Turning to the quarter, as we said on our last call, we saw a significant impact on sales in early January and February based on weather and macro conditions. However, demand improved as the quarter progressed. March demand increased approximately 6%, marking our first year-over-year demand growth on a comparable basis in 2 years. That improvement was driven by the launch of ComfortMode, updated marketing and promotions to clear legacy inventory.

We delivered net sales of \$319 million, in line with our expectations and adjusted EBITDA of \$6 million ahead of our internal plan. While we just discussed the March demand metric, we recognize revenue when the bed is delivered. Since the majority of new products launched on March 23, most of the net sales will be reflected in Q2 rather than in Q1.

Now let me talk about the progress we're seeing against -- across the business and why we're encouraged by the early results.

Let's start with the product. We completed a full product reset across all of our stores in less than 4 weeks. At the same time, our manufacturing and home delivery teams transitioned to the new lineup seamlessly and without disruption.

The rollout also gave us an early read on product success. During the launch period, stores set with the new lineup saw 12% higher ARU than stores with previous products. Given the product rollout happened at the end of Q1, I'm going to share some metrics we are seeing in Q2 that help us determine progress.

First, we have the success of ComfortMode, the first best bed we launched in January. We are seeing 15 points of improvements in overall Net Promoter Score. And when we compare to our prior entry-level mattresses, the C series, Net Promoter Score improved by 27 points.

With this improvement in NPS and with more than 100 days in market, we are seeing this flow through to our financials with 100 bps reduction in return rate for ComfortMode versus historical return rates of the product it replaces.

Second, across the full portfolio, we are seeing a strong attach in our premium ComfortNext line, which features our unique Tri-Brid technology. More specifically, ComfortNext Lux is now our top selling bed at approximately \$4,000 for a clean size at a healthy margin and representing an early shift into the planned product mix.

To be clear, the new beds have a better average margin profile than the beds they replaced, and the planned mix of the new line should return us to historic gross margin levels once we get past all onetime launch and clearance cost pressures.

We also conducted in-home user testing during the rollout and saw the direct and measurable impact of our beds. Compared to their original mattresses, 9 in 10 people slept better, 8 in 10 people got more sleep and 8 in 10 people experienced less pain on a Sleep Number bed.

Shifting to marketing, we continue to drive improvements in our website experience. This has improved organic search visibility and simplified the purchase process. E-commerce demand grew year-over-year by approximately 5% in April, partly because of this work. In addition, our ongoing work in AI discoverability has improved AI citations by approximately 25% year-to-date.

To support the product launch, we introduced a new integrated brand campaign to a [good life fleet], which features brand spots along with product-specific [creative]. These reinforce what differentiates Sleep Number, a personalized bed that adapts your life and sleep needs as your life and sleep needs change. The early response is positive and is trending above benchmarks in the category.

Lastly, we launched our first Travis Kelce content last week, alongside expanded influencer activity, both designed to drive awareness and store traffic. We continue to see high engagement on our social content. For example, the Travis Kelce video garnered over 7 million views and high-value engagement, especially in shares and [phase].

We continue to expand distribution in a disciplined way. A recent example is our test with Costco. We launched an exclusive online bet at costco.com, and early indications are encouraging through both direct sales and increased visibility in our stores.

We also remain focused on cost discipline. Since the start of 2025, we've identified over \$235 million of annualized savings, \$200 million of which has already been executed. With the cost savings implemented, we expect to stay on track for our EBITDA plan.

Looking ahead, we are measured in our outlook, consistent with what we said on our last earnings call. April demand was in line with our internal expectations and seasonal trends. We continue to plan conservatively given ongoing consumer uncertainty and macro volatility. That said, we're encouraged by customer response to the new beds and the performance of our refreshed marketing, which continue -- which reinforces confidence in our plans.

As I reflect on my 1-year anniversary as CEO, I want to step back for a moment. When I joined Sleep Number, I saw a powerful brand, a compelling mission and a deeply committed team. I also saw a cost structure, product offering, marketing approach and balance sheet that limited long-term performance.

Over the past year, we've taken meaningful steps to address those challenges, reducing costs, modernizing our marketing and executing the most significant product reset we've had in years. We're

confident in our marketing and product execution, and our capital structure is the final major piece of the turnaround that we're focused on solving.

Finally, I want to thank our Sleep member team members. None of this progress happens without your focus, dedication and commitment to quality sleep. I'm grateful for your work and proud of the resilience you show every day.

With that, I'll turn it over to Amy.

Amy K. O'Keefe
Executive VP & CFO

Thank you, Linda, and good morning. We are pleased to have finalized negotiations with our lenders that resulted in approximately \$55 million of near-term incremental liquidity through covenant relief and \$25 million of new capital.

As we disclosed in the 10-K, our plan to alleviate the risk to continuing operations was threefold: Number one, execute on the turnaround strategy centered on products, marketing and distribution while rightsizing the fixed cost base; two, engage in negotiations with lenders with the goal of amending or waiving financial covenants; and three, engage financial advisers to identify and secure additional capital and other comprehensive solutions to address the capital structure for the creation of long-term value.

We are progressing well against that plan. As Linda described, the turnaround strategy is well underway. As we head into Memorial Day, our new lineup of products has launched, the stores were fully reset as of April 17, and new marketing creative is live with significantly increased investment in Q2 compared to last year. Additionally, we are executing against our \$50 million annualized cost savings plan, having executed approximately 30% on a year-to-date basis.

Related to the recently executed credit agreement amendment, we were able to alleviate the near-term pressure on liquidity and covenants. The agreement provides for the following: one, a new senior secured term loan facility of \$25 million due June 30, 2026; two, relief from the \$30 million minimum liquidity covenant through June 30, 2026; and three, forbearance by the agent and lenders from exercising their rights under the credit agreement for specified covenant defaults as of April 4.

With respect to a long-term solution to our capital structure, we have work to do over the next few months using the short-term relief we received from our lenders. Along with our advisers, we continue to progress plans to finalize the strategic transaction designed to maximize stakeholder value.

Now let's get into Q1 results, which were consistent with the expectations that we shared on our last earnings call. Net sales were \$319 million in Q1, which was 19% below the same period in the prior year. Note that in Q1, consistent with our plan, investment in media was down 21%.

In addition, as Linda mentioned, and as we discussed on our last call, demand performance in January and early February was soft. However, we did see sequential improvement across the quarter, culminating with year-over-year demand growth in March, aided by discounting to move legacy SKUs in advance of the launch of new products on March 23.

Gross profit margin was 57.9% in the quarter, which was ahead of plan. but 329 basis points below last year, primarily driven by a shift in mix to the new ComfortMode bed and discounting of legacy inventory. As the full line of products are now in the market and as supply of legacy inventory diminishes, we expect that gross margin will improve to at or above historical levels.

Adjusted operating expenses before restructuring and other nonrecurring costs were \$195 million, down \$42 million or 18% year-over-year. The reduction was driven by ongoing cost savings initiatives to rightsize the fixed cost base and lower variable selling expenses. Adjusted EBITDA was \$5.8 million, down [\$16 million] versus the same period last year.

Turning to the balance sheet and cash flow, total liquidity, including cash and revolver capacity was \$40 million at the end of Q1, above the \$30 million covenant floor, which remained in place until the execution of the amendment to the credit agreement on April 27.

Free cash flow in the quarter was a use of \$13.2 million, which was just over \$20 million favorable to expectations. However, it was unfavorable by \$6 million compared to the prior year, primarily due to top line pressure, partially offset by favorable working capital. Capital expenditures in the quarter were \$5.4 million.

Looking ahead to Q2 and the balance of fiscal year 2026, starting with Q2, the demand improvement in March has translated to sequentially improved year-over-year performance in net sales for the month of April, despite a promotional comparability headwind versus prior year. I expect that our media investment in Q2 will be roughly flat to Q1 but up significantly versus the prior year, which was a trough.

Consistent with the indications of performance expectations that we provided on our last earnings call for the quarter, we expect net sales to be down in the range of low single digits to flat versus the prior year.

Given our previously announced engagement of Guggenheim Securities to evaluate strategic and financing options, we will not provide any further financial guidance at this time. But I will say that my expectations of performance are consistent with the indications that we provided on the last earnings call. And with that, I will turn it back to the operator for Q&A.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Peter Keith with Piper Sandler.

Peter Jacob Keith

Piper Sandler & Co., Research Division

I wanted to focus on the Q2 because I guess our view has been that there's kind of a lot riding on Q2 to show meaningful improvement as you've got the full product line rolled out. And then the media spend sounds like it should at least be flat or not up year-on-year.

So I guess you are guiding sales down slightly in Q2. But how do you feel about the whole plan coming together with the media and the new products and driving positive demand growth over time?

Linda A. Findley

President, CEO & Director

I'll start with that, and then I can turn it over to Amy. So nothing's changed about our media spend plan really for Q2 and beyond based on what we previously said. So we still anticipate, as we said on Q4, an improvement but down, as Amy just sort of illustrated.

There is obviously a little bit of bumpiness in the media spend as far as how it's planned. I mean, it would be fairly standard for us to back [weight] it, given the Memorial Day holiday, which is what we've done. So we are leaning in now that the products are fully set and in market, and that's where most of the media spend is coming together, which is in the coming weeks.

Peter Jacob Keith

Piper Sandler & Co., Research Division

Okay. And I guess with the new term loan that's due on June 30, is that -- should we think about it as some type of new sort of financial plan or recapitalization should happen by that date?

Amy K. O'Keefe

Executive VP & CFO

Yes, that's the expectation here. So the short maturities, I mean, as we've talked about on the Q1 call and through the script, we've been working towards this goal for months and months. And so we hired advisers, and we've been working in parallel.

And so I think given -- I think that we're well positioned to be able to continue to progress those transactions, and our lenders are going to hold us accountable for that.

Peter Jacob Keith

Piper Sandler & Co., Research Division

And last question, a popular topic these days is higher input costs that was not mentioned in the prepared remarks. Obviously, there's a lot of other things going on. But how are you managing through that environment right now? Do you have some flexibility around pricing or other cost mitigation efforts?

Linda A. Findley

President, CEO & Director

So I guess I would say that we have a bit of an advantage -- and then I'll turn it over to Amy to talk about more detail, but we have a bit of an advantage in that we just launched a new product line that was priced according to pretty current data when it came to either thinking about tariffs or other macro information.

So I think we're in pretty good shape from a consumer standpoint. We'll continue to evaluate how that comes together. We had actually anticipated a certain amount of pressure on inflation anyway just because

of the signals we were seeing earlier in the year. So that is already built into the plan as far as price pressure.

Amy K. O'Keefe
Executive VP & CFO

Yes. I mean, we definitely expect to see some headwind. It hasn't changed our view of internal performance expectations. And we're also executing cost savings initiatives against it. And so we expect to be able to hold to our plan despite the input cost.

Operator

Your next question comes from the line of Dan Silverstein with UBS.

Daniel Arnold Silverstein
UBS Investment Bank, Research Division

Amy, could you just provide detail around your liquidity position as of today? And if Memorial Day kind of went to plan, which it sounds like April is trending in line with expectations, what would that mean for the cash flow dynamics in the second quarter?

Amy K. O'Keefe
Executive VP & CFO

Yes. So I'm not going to comment on our liquidity position as of today. I will say that the support of our lenders -- we're in trough liquidity. I mean, our business goes from President's Day through Memorial Day, and we're investing into new product launch, new creative, new sponsorships with Travis Kelce.

And so we're definitely using cash, that should be no surprise, And we got support from our lenders to manage through the liquidity to execute our plans for Memorial Day.

And so what I will say is that we manage liquidity very, very tightly. And as we expect, collections to ramp over the Memorial Day holiday, which is consistent with our plan, and so we worked very closely with our lenders on our forecast. And thus far, we have been at or above the forecast that we provided. So we expect to continue to manage liquidity tightly through Memorial Day selling season.

Daniel Arnold Silverstein
UBS Investment Bank, Research Division

Very helpful. Next, a very encouraging start with the new product rollout. How many customers that are buying the [Comfort] mode products just because there's a little more data there, are new to file? And how are they engaging with the brand? And how could you capitalize on that for Memorial Day and later out?

Linda A. Findley
President, CEO & Director

Yes. So as we've discussed, before part of the strategy behind the new product launch was to attract new buyers to the products. and we have seen that play out. We're not giving exact numbers on that, but we have seen new buyers coming into the product at a higher rate than previously.

We love our smart sleepers and our existing customers, and we continue to nurture our existing customers as well as obviously upgrading and/or replacing old with new products is a behavior that we also want to encourage. But we're happy with the progress that we've made with new customer acquisition during this time.

Operator

Your next question comes from the line of Bobby Griffin with Raymond James.

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

Congrats on some of the early improvements there in March. I guess, Linda, first one to start, because this is the first time you guys have some of the new products out for big holiday as well as your team in place. So maybe can you just elaborate a little bit on how you're approaching the Memorial Day weekend holiday versus historical standards of sleep number?

And anything there from a promotional aspect? You talked a little bit about marketing, but just anything more to kind of help us connect how you're going about this holiday season, maybe a little different than what we're used to?

Linda A. Findley
President, CEO & Director

Sure. I can give a high level as we go through. But obviously, part of our role and part of our job is to continue to adapt to whatever we see in market. So we will continue to be flexible as we get into the holiday on what's best for the business and what's best for the product.

It is very early with the new products. Again, we are encouraged by what we're seeing from the simplified purchase process. both in discoverability as well as people moving into other beds in the line beyond the ComfortMode launch, including our ComfortNext Lux, which we're very proud of.

So we're seeing the patterns that we wanted to see when it comes to that. And we are also seeing, as I mentioned in our script, good response to the new brand campaign that we've put out. It's early, so it's trending in the right direction. It takes time for those things to really take hold, but we are seeing good response.

From a promotional standpoint, when we price these beds, when we were creating the new product line; we price these beds very competitively compared to their predecessors. So while they are all premium price points, they are all premium price points that are slightly better than the beds that they replace and also with more comfort materials and value sort of moved into those.

So that's really what we're leaning into for our selling for the holiday season. is comfort, value durability, as we noted before. The simplified selling process allows people to try the individual fit process on one of the new beds. So they're trying it on [un-ComfortMode] Lux. And that iFIT process has been adapted for the simplified selling process of showing people the best bed for them.

As far as promotions, honestly, what we're doing is we're really moving towards what I would call more industry standard promotional approach, which so far has worked well for us. But as I mentioned, we will continue to be flexible on how we think about promotions going into the holiday based on what we see with consumer behavior and the macro environment.

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

That's helpful. And then, Amy, maybe a follow-up on the gross margins for the quarter. How much of the decline year-over-year was the discounting of the legacy products? And then my apologies if I missed it in the script, but are we largely done with that discounting? Or will it be done by 2Q? Just anything on the timing of clearing out the legacy products?

Amy K. O'Keefe
Executive VP & CFO

Yes. So certainly, supplies on the legacy products are diminishing. We continue to sell the -- I mean, we think it's really important to recover the component inventory costs, and we will continue to sell them until -- while the supplies last, so to speak.

In the quarter of the, call it, [330] basis point change the discounting was under 100 basis points of that change. It was really that Q1 because we had launched the ComfortMode bed early in the quarter and had great success with that, sort of outselling versus the prior year. mix shifted in that direction. And I would say closer to half of the basis point difference was as it relates to the mix shift.

As we launched the new products on March 23, we expect that mix to evolve and to balance out over time. And so as I noted in my comments, while gross margin was relatively flat on a sequential basis from Q4 to Q1, when you remove the impact of the inventory obsolescence charges that we've taken, we expect that to sequentially improve as mix balances out for the rest of the year.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

Okay. That's helpful. I appreciate the detail. Best luck here in this period, trying to get some more long-term financing and good luck over the holiday.

Operator

Your next question comes from the line of Brad Thomas with KeyBanc Capital Markets.

Bradley Bingham Thomas

KeyBanc Capital Markets Inc., Research Division

I wanted to maybe follow up on one of Bobby's last questions. I know the company historically talked about ARU. Can you maybe share a little bit more detail on how ARU or maybe average ticket or the average transaction size has been trending of late? And how you're thinking about that going forward?

Amy K. O'Keefe

Executive VP & CFO

Yes. On a year-over-year basis in Q1, so ARU for the quarter was about \$6,021, which was up slightly versus the last -- versus prior year as we planned. So we have been we had planned these new product launches to expand ARU, and we certainly expect continued expansion of ARU as the rest of the product line rolls out. But we did see an improvement quarter-over-quarter versus last year.

Linda A. Findley

President, CEO & Director

Yes. And the only other thing I'll note is, I mentioned in the script that when we did the rollout of the new bed starting March 23, stores that were set with the new bed did have a higher 12% higher ARU than the stores that were set with legacy inventory.

And as I mentioned in our previous call, our new product design was really designed to create the right value at the right price point. But now with ComfortMode being our entry price point into the line and previously having had 2 beds that were priced below, that obviously also is part of the ARU mix we plan going forward because we will no longer have those lower-end beds. So that's part of the improvement.

Bradley Bingham Thomas

KeyBanc Capital Markets Inc., Research Division

That's helpful. And then on the sales guidance, this is, of course, with the store count being about 9% lower. So if we try to back into like a same-store sales metric, it looks like that might be up mid- to high single digits for 2Q. Is that the right way of thinking about things?

Amy K. O'Keefe

Executive VP & CFO

I mean -- so we definitely -- so we're definitely expecting through the Memorial Day season of return to demand growth like we saw in March. And so I think that's -- I think overall, as I mentioned, will be down low single digits to flat from a net revenue perspective in the quarter. And so later in the quarter through Memorial Day, you might see a return to growth in same-store sales. That's kind of how I think about it.

Bradley Bingham Thomas

KeyBanc Capital Markets Inc., Research Division

Yes. And then just the last one for me. On 2Q, is there still a quantifiable amount of launch costs falling into 2Q, just as we think about expense puts and takes here?

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Amy K. O'Keefe

Executive VP & CFO

For the most part, I would say -- as I think about launch costs, I think about inventory obsolescence, which I feel like is behind us, we took the biggest piece of that in Q4, which we talked about on the last call, we had a bit more not to the magnitude that we took in Q4, a little bit more in Q1; I would say that from a creative perspective, those costs have been borne already. And so I would say that it is -- there are some in Q2, but not to the magnitude that they were in Q1.

Operator

As we have no further questions, ladies and gentlemen, this will conclude today's question-and-answer session. I'd like to turn the conference back over to Linda for any closing comments.

Linda A. Findley

President, CEO & Director

Thank you all for your time today. We remain focused on the work ahead, and I look forward to updating you on our continued progress in the coming months. As always, if you have questions, please contact us directly. Thank you.

Operator

This concludes today's call. Thank you all for joining. You may now disconnect.

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